

MONTHLY REPORTS mid 2003-06

Monthly Reports 2005

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – JANUARY 2005
PA GOVERNMENT SERVICES, INC.

Activities

- Merritt and Amila I. met in Banja Luka with Minister Lajsic and Mr. Milovanovic. Goal of the meeting was to discuss Government's involvement with EP RS process of restructuring. USAID's position was that the Government should restrain from infiltrating itself into entire structure of EP RS. Merritt stated that the Government should set up overall policy and through the shareholders' assembly of EP RS Holding company should have a means to implement its guiding principles and use management to put them into practice. Mr. Milovanovic argued that the Government ought to have control in each and every shareholder's assembly that will be created in new JSCs (former daughter companies). They used argumentation that they are the owners and that it is their responsibility to make sure that these companies operate as the Government intends. Also, Mr. Milovanovic argued that he does not want to give too much independence to the new JSCs because he is afraid that they are still not in the position to operate independently.
Second topic on USAID's agenda was to discuss ecological study created by Energoprojekt from Belgrade that should have addressed all environmental impacts that development of HPP Buk Bijela may create. We stated that it is proven that the study is inadequate and it cannot be used as part of feasibility study documentation. Merritt asked, since this study was earlier presented (when the tender is issued) as the starting point to bid on the project, what happens in the light of these new developments? Mr. Milovanovic explained that a new working group is being created which is to evaluate existing study and essentially create new terms of reference for creation of a new study. We expanded the discussion, asking what happens in case that the new study proves (including the position of Montenegro as an ecological state with UNESCO's involvement) that the ecological impact would be so large that the project cannot be carried out, particularly because companies that bid would have a legal basis to file a suit against EP RS and the RS Government for having issued the tender in the first place. Mr. Milovanovic and Minister Lajsic did not demonstrate any concern in regard to this issue.
Merritt raised yet another issue in regard to the elected members of this working group, since there are no representatives from FBiH or the BiH State and it is evident that they should be involved as well. Mr. Milovanovic explained that this WG includes experts and it is irrelevant where they come from since the goal is to have an expert analysis.
The meeting ended with Merritt stating that it is in the RS Government's best interest to act in the most suitable manner since this is a highly controversial issue.

- Merritt and Amila met in Mostar with representatives of EP HZ HB (General Director Vlado Maric, Mr. Vedran Boras, Mr. Ivica Cule, Ms. Mira Galic). Purpose of this meeting was continuation of our previous discussion on promised alternative Action Plan by Ambassador Hayes according to Mr. Maric. EP HZ HB started the meeting with usual discourse that there is no technical, economic or financial justification to implement the proposed Action Plan; that there is no reason for EP HZ HB to combine itself with EP BIH and that the entire process of restructuring can be done within existing companies. As the redundant discussion went on, Merritt asked if they have some better solution in resolving this issue. Mr. Maric with help from Mr. Boras explained how this should be done on the state level and that we should join our efforts to convince other participants (meaning RS) in order to achieve desired results. Merritt committed that PA Consulting would draft a paper addressing the strategy how this may come to life, yet it would be upon EP HZ HB to gather support of their political representatives so they can take a political lead. Mr. Maric said that they will do everything that they possibly can but also said that EP HZ HB is just a company not political or lobbying force.
- Peter and Ankica Altumbasic (Peter's replacement) came and had a short meeting with Elma, Amila N, and Amila I. in order to introduce Ankica to our office and activities that are within our responsibility. Meeting was short during which each one of us gave a brief summary of activities that are ongoing.
- Merritt and Amila I. met with Minister Zigic in Sarajevo to discuss status of the FBIH Action Plan. Minister Zigic said that once again he will propose to the FBIH Government to submit a new amendment to the FBIH Parliament which would state that FBIH Action Plan is subject to approval by the Government with an opinion awarded by the Parliament. Minister Zigic during the meeting was not enthusiastic in discussing the overall problems that the energy sector in BIH is facing. He only shortly stated that we need to focus on developing a general strategy for energy sector which would provide guidelines and a model under which progress can be made. Mr. Srdanovic informed us that the commission for election of candidates for MB of TRANSCO and ISO completed its work and compiled a list for Minister Zigic to approve. FBIH nominates 4 members for each MB (2 Bosniaks and 2 Croats); the list is as follows:

Croatian representatives

- 1) Matan Zaric (former EP HZ HB GD) there is a possibility that OHR will oppose his nomination.
- 2) Mr. Kozulj served in Spain as BIH foreign officer
- 3) Mr. Drazan Rebic, economist not directly from the sector but well experienced
- 4) Mr. Baban, lawyer
- 5) * Mr. Hrkac el. engineer will be proposed in case that OHR opposes Mr. Zaric's nomination.

Bosniak representatives

- 1) Mr. Santic, served on MB of ERONET, el. engineer
- 2) Prof. Dizdarevic, lawyer, professor at Law faculty
- 3) Mr. Colakhodzic, economist
- 4) Mr. Sokolija, professor at el. engineering faculty

At the time of the meeting the official list was still not submitted to Minister Zigic for his approval prior to being forwarded to MOFTER.

- Merritt, Ankica and Amila I. attended a meeting organized by ZEKC as a regular meeting of a WG for development of Market Rules. Meeting was attended by three ZEKC's general directors (Mr. Hadzic, Mr. Tusevljak, Mr. Vukic), EP BIH representatives (Mr. Sabanovic and Mr. Diakic), EP HZ HB representatives (Mr. Edin Omeragic and Ms. _____). EP RS representatives were not present because of weather conditions. Since not all parties were represented at the very start Mr. Hadzic said that during this meeting no decisions can be made but two proposals for Temporary Contract on Balancing (one drafted by EP BIH and the second by Mr. Tusevljak) can be discussed. Mr. Tusevljak presented his proposal and focused more on elaborating that the proposal created by EP BIH is incomplete and impossible to implement. Mr. Sabanovic from EP BIH explained his proposal and asked other participants to give him more constructive comments in order to improve drafted document. Representatives from EP HZ HB essentially said that they don't even see the purpose of this WG or the tasks that are assigned. Mr. Hadzic concluded the meeting stating that this group has very important tasks to complete and that he will be more actively involved in order to appoint this group officially by appropriate organizational structures. Merritt on the end stated that this WG needs to act immediately since they have important tasks to complete.
- Merritt and Amila I. met with representatives of EP RS (Mr. Supic, Mr. Radovic and Ms. _____). They came to discuss with us, new initiative by the Government to use the same principal in appointing members to the Supervisory Board of EP RS Holding and new JSCs (former daughter companies) as was recommended to be used for appointment of MB members of TRANSCO and ISO. Merritt argued against this principle and recommended that members to the Supervisory Board be representatives from EP RS holding, representatives of that JSC, Government and independent private sector possibly. At this meeting Mr. Radovic brought up the issue of the legal suit against EP RS filled by SB Soft. They have explained that there are two legal suits on the account that EP RS did not pay original contracted price and the second on the account that EP RS in distribution company "Krajina" and distribution company "Hercegovina" is using software that they don't rightfully own. Total value of both legal suits against EP RS is about 100 million KM.
- Donors' meeting organized by the Canadian Embassy and attended by representatives from IPA, MOFTER, OHR, EC, KEMA, EBRD, USAID, SEETEC, Pierce Atwood and PA Consulting. Passage of FBIH Action Plan still continues to present a significant problem. Lejla Uzicanin from OHR stated that they may utilize some of their lobbying capabilities in order to secure passage of the Plan. Mr. Hadzibegic from MOFTER suggested that they call a meeting between 2 Ministers and 3 EPs' GDs with a hope to reach some agreement. EBRD reported on SCADA project where 80% is transferred to TRANSCO but there is still no management over it. KEMA will leave within 6 weeks, as they have completed their modified task and are still waiting for the comments from EPs on their proposed Grid Code.

EC is working with MOFTER and formation of Energy Department as well as new IMs for ISO and TRANSCO

IPA reported that they will not assume extraordinary powers as IMs since they believe that nominations are under way and that ISO and TRANSCO will soon have new MBs.

USAID discussed possible involvement in Gas industry as well as efforts on unification of three regulatory bodies.

Overall, the meeting was constructed around giving short briefings without detailed discussion or proposals for resolutions of pending issues.

- Merritt and Amila I. were invited to official signing of the contract between EP HZ HB and EP BIH for the sale of power for the needs of Aluminum Company. Each GD made a brief statement for the journalists. Mr. Kreso thanked USAID and Merritt in particular for all the assistance that he and his staff offered in this period. Mr. Maric thanked OHR and Ambassador Hayes in particular who was present as well. Ambassador Hayes made a brief statement stating importance of such contract and even more significance of good working relations between the EPs. The remainder of his speech was incoherent, not supported by facts and difficult to follow.
- On Feb 9th Amila I. attended EBRD's presentation of its Transitional Report organized at Holliday Inn and chaired by Aygen Yaikoglu and Peter Sanfey, head economist in their London office. EBRD considers BIH to be its key element for future investment in this region. In their report BIH, according to their evolution methods on the charts, ranked somewhere in the middle comparable to the countries such as Albania, Tajikistan etc. EBRD for next year plans to invest into the railroad industry, support large privatization efforts through institutional development, focus on shifting from AID to FDI, support efforts in telecom and the energy industry as well as projecting a good image of the country abroad.

Issues

- Approval of the FBIH Action Plan is still uncertain. FBIH Government fails to be more pro-active in resolving this issue. At this point is difficult to predict whether or not we will have FBIH Action Plan at all
- Under the new decision proclaimed by the FBIH Government on inter-company delivery and tariffs, EP BIH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- Active plans of EP RS to continue construction of the Fatnicko Field Tunnel and the Buk Bijela HPP Project
- Legal suit against EP RS, by SB Soft may result in verdict which would mean that EP RS is obliged to pay about 100 million KM to this software company. Entire issue is very sensitive and politicized, any active involvement on our part may result in negative consequences.

- After our recommendation were made to the RS Government Tender Commission for revisions to the Buk Bijela Concession Documents that would limit the liability to the EP and to the RS Government, they removed the offending documents from the required bid documents so that they are now not subject to public scrutiny
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The tender for billing and collections software of EP HZHB is not being coordinated with the other EPs
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca
- Discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field have not been concluded
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Gacko now (and could be for Ugljevik in the future) because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Federation Government adopted the Coal Mine Action Plan that is based on the German Study on the Rehabilitation of the Coal Mines, which is in contradiction of the recommendations that were made in the Electricity Action Plan. The Mine Action Plan has to be harmonized with the Electricity Action Plan.
- Elektroprenos EP RS has purchased an expensive facility in downtown Banja Luka to serve as the HQ of the BiH Transco. This should be the responsibility of the BiH Transco Management Board, which has yet to be elected.
- Elektroprenos EP RS is constructing a new 400 KV line that will connect Ugljevik directly to Serbia, in spite of a prior decision of the EP not to construct this line.

- The allocation of the SCADA assets between ISO and Transco is unresolved, and must be agreed by EBRD before ISO can be registered. The unresolved issues relate to the ownership of the RTUs.

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – FEBRUARY 2005
PA GOVERNMENT SERVICES, INC.

Activities

- With Amila, met with Radovic and Tesic of EP RS. They requested the meeting to discuss the problems that the EP is having with two suits that have been brought against them. The suits have been brought by SB Soft of Belgrade for software that the EP purchased but has not completed payment for, and by a local contractor at Ugljevik for a contract that was tendered but was never awarded. They explained the details of these suits and requested our assistance with the courts. We responded that we cannot assist in these legal disputes, and that USAID has stated that they will not get involved in these suits.
- With Merritt, attended a donors' at USAID. Omer Hadzic was also in attendance to discuss the needs of ZEK in the formation of the ISO. The delay of the Federation Government in appointing nominees for the Board Members for Transco and the ISO was discussed. It was acknowledged that the time as specified in the Laws for the IMs to take over with their extraordinary powers has been exceeded by one month. The decision was made by the IC to write letters to the three Prime Ministers stating that if the nominees were not approved by 4 March, then the IMs would assume these powers. A letter would be sent from the US Embassy and from the EC Ambassador. A similar letter would be sent to the BiH and FBiH Prime Ministers with the same deadline for the approval of the FBiH Action Plan.

Daniel Dumas of SEETEC reported that Godeau has said that SEETEC (Barbeau) is developing a work plan to write an operational agreement between Transco and the ISO. He also reported that the new asset valuations would be completed in March for all three EPs. Hadzic said that it has been agreed with Transco that the TNMS will be owned by the ISO. It was agreed in the meeting that the backup system must also be owned by the ISO.

- With Merritt and Amila, met with Kreso and Aganovic of EP BiH. We requested that Kreso consider who in his organization would be the best candidate for the GD of the ISO. We also requested that he personally attend the ZEK Board Meeting instead of sending his transmission director, because of the sensitive interface between the ISO and Transco. We reminded him that he had not signed the Amendment to the EBRD Loan for SCADA that stated the agreement to finance the refurbishment and long-term lease of the present HQ of ZEK for the ISO.

Kreso discussed the long-range plans of the EP for adding new generation. He said that in 12 to 15 years the existing TPPs will be outdated and non-economic, and would have to be replaced. New TPP technology would increase the efficiency of new TPPs by 40 to 50% over the old ones. New technology would also decrease the labor content of their costs, which now accounts for 20% of the operating costs. The plan would include a reduced cost of coal from 4 KM/Gj to 3 KM/Gj, saving 50 million KM annually, which over two years could pay for the retirement of excess coal miners. He also said the EP is developing plans for several new HPPs and will prepare a presentation for us on these projects.

- Met with Merritt to discuss several alternatives that may be presented to the IC for internal discussion. We agreed on two basic alternatives that would possibly have some attractiveness to EP HZHB. It was agreed that these changes would probably create problems for the RS and that their Action Plan would have to be rewritten and re-approved if we went with one of the alternatives to the existing plan.
- Met with Dumas and Faruk of SEETEC to discuss the tariff methodology for Transco. We also discussed the treatment of ancillary services and the tariffs that will be appropriate for the different ancillary services. We discussed the asset interface between Transco and the ISO, and the decision of the IC at the Bruxelles Donor Meeting in September 2003 to have the RTUs and the telecoms control system with the ISO.
- Learned from Aganovic of EP BiH that Minister Zigic sent a letter to the two FBiH EPs requesting both EPs to appoint a member of a WG to review the Action Plan. This review is to be completed by 25 February. Goren Milosevic has been appointed by Kreso. No other information has been received about this effort.

Issues

- Approval of the FBiH Action Plan is still uncertain. FBiH Government fails to be more pro-active in resolving this issue. At this point is difficult to predict whether or not we will have FBiH Action Plan at all
- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- Active plans of EP RS to continue construction of the Fatnicko Field Tunnel and the Buk Bijela HPP Project
- Legal suit against EP RS, by SB Soft may result in verdict that would mean that EP RS is obliged to pay about 100 million KM to this software company. Entire issue is very sensitive and politicized; any active involvement on our part may result in negative consequences.

- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- After our recommendation were made to the RS Government Tender Commission for revisions to the Buk Bijela Concession Documents that would limit the liability to the EP and to the RS Government, they removed the offending documents from the *required bid documents* so that they are now not subject to public scrutiny. Technical bid evaluations for this project continue to be evaluated, and a special environmental committee has ruled that a proper EIS has not been produced.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the *liabilities to the EP and ultimately to the Government* of 338 million KM.
- The tender for billing and collections software of EP HZHB is not being coordinated with the other EPs
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca
- Discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field have not been concluded
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Federation Government adopted the Coal Mine Action Plan that is based on the German Study on the Rehabilitation of the Coal Mines, which is in contradiction of the recommendations that were made in the Electricity Action Plan. The Mine Action Plan has to be harmonized with the Electricity Action Plan.

- Elektroprenos EP RS has purchased an expensive facility in downtown Banja Luka to serve as the HQ of the BiH Transco. This should be the responsibility of the BiH Transco Management Board, which has yet to be elected.
- Elektroprenos EP RS is constructing a new 400 KV line that will connect Ugljevik directly to Serbia, in spite of a prior decision of the EP not to *construct this line*.
- The allocation of the SCADA assets between ISO and Transco is unresolved, and must be agreed by EBRD before ISO can be registered. The unresolved issues relate to the ownership of the RTUs.

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – MARCH 2005
PA GOVERNMENT SERVICES, INC.

Activities

- Met with Reuf Hadzibegic of MOFTER to discuss working arrangement with John Williams in developing policy statements for the State Energy Department. Because of my work with ZEKC and the ISO, policies will have to be coordinated for the development of a national market and for the introduction of a State policy for the development and approval of new power projects. Reuf agreed that a BiH EIS would be required for new projects. MOFTER is now working on a draft of a paper on water usage. He said that PA is appointed as an official member of the ISO/Transco Coordination Committee.
- Met with John Williams to discuss coordination on support for the Energy Department of MOFTER. He is pleased to have such assistance, and said that he is being careful not to push too hard on the present employees so that they don't feel that he is force-feeding them. He has been working on the TOR for a BiH Energy Strategy Study for the EC. He has been approached by the WB who has offered to do a similar study. He has delayed responding to them because we don't need two such studies. He told me that the EC budget for this year in BiH is 2.4 million euro, half for the Energy Department and half for the formation of the ISO and Transco.
- Met with Omer Hadzic of ZEKC to discuss his concern on several items. The first is that on April 1 a change in the GD of ZEKC is scheduled. The RS is to supply the next GD, and Tusevljak has been insisting that plans be made for this transfer. The problem is that he is Mijatovic's man, and Mijatovic plans to change the design of the SCADA and the Project Management Team once his man gets in because the GD of ZEKC is now the PM of the SCADA project. It would be much better to retain the existing management for the couple of months during the transition from ZEKC to the ISO so there won't be disruption. As for the management of the SCADA project, Azra and Mijatovic have blocked the work by not responding to milestones set by Siemens, causing the latter to issue letters that the delays are causing increased costs.
- With Amila, met with the ISO/Transco WG. The three directors of the EP Prenos divisions have recommended a change in the PM structure from what was agreed with EBRD. They want the management to be de-centralized from a single project manager (ZEKC) with three sub-managers from the EP PIUs to four equal PMs: ZEKC, and the three Prenos divisions. Mijatovic argued that the entire Prenos must be involved because 93% of the equipment will be in Transco, and that no outside (of Transco) manager could manage this project.

The coordination that is required for such a complex project does not exist today. Aganovic asked where the present Project Team Agreement causes a problem that the proposed management team would make it better. There was no response to this question, but a request from Mijatovic to send both proposals to the ZEKC Management Board and let them decide. In the end, Aganovic said that EP BiH would recommend making no change in the PT until the new organizations were formed.

- With Merritt, met with Zigic and Srdanovic of FBiH MoE. The FBiH Government proposed candidates for the boards of the ISO and Transco, but Hayes did not like Zaric on the list. Hayes and Zigic spoke to Zaric about supporting the AP, and he told them that Covic and Maric are the principal opponents. Zigic said that he couldn't support Zaric unless Hayes withdraws his negative letter. Merritt said that the Federation Government should submit their list of candidates even though the CoM may reject some of them.

Merritt asked about a couple of proposed projects in the Federation. Zigic said that the soda factory with an associated TPP is not a serious project. If it were changed to provide financing for a new unit at Tuzla (380 MW), it may work. The US Embassy told them to reactivate the soda factory and forget about energy. Entrade has submitted a request for concessions for three HPPs. The Federation Government has decided to give concessions to the EPs and have created a Concession Commission at the Government level that was established by Parliament. This is in response to the many expressions of interest that the Government receives for new HPPs.

- Amila met with Kreso at his request to discuss the special audit that EP BiH is undergoing at the request of Hadzipasic with the support of Hayes. It is intended to put Kreso in a bad light and he believes that the Government intends to get rid of him.
- Met with Omer Hadzic and EBRD to review the SCADA project. In discussing the delays of the project caused by the non-cooperation of EP BiH Prenos, Laurent requested that Omer send a letter to Kreso requesting a resolution to this problem. EBRD reported that Mijatovic had bypassed the EP PIU and the PT and sent a letter signed by Dakic directly to the Bank requesting a 3 million KM change. It was agreed that the Bank should reject any request that did not come through the PT in the proper manner. Laurent will lobby the IM to request that no change in the ZEKC GD be made in the transition of ZEKC to the ISO. He agrees that no change if the PT should be made now.
- With Amila, met with Dragan Andelic of EP RS. He is supportive of retaining the existing management of ZEKC during the transition from ZEKC to the ISO. He said that there is precedence for doing this, because four years ago when Cokorillo was GD, he retained the job for a few extra months while EP HZHB found its candidate. He will make this recommendation to Dakic. If Dakic is not agreeable, we agreed that we have a backup plan because Tusevljak is totally unsuitable for this job. Andelic said that he would agree to be appointed as an interim GD in this case. He will emphasize the unsuitability of Tusevljak for this job.

- With Amila, met with Azra Hajro and Caligija of EP BiH to discuss the SCADA project. Azra complained that the communications on the project are not good and that the General Contractor Siemens is making changes to the project that have a negative impact on the EPs. She thinks that the fault lies with the PT and with the senior PM. She also has problems within EP BiH and is not happy with the EP PIU being in charge of the job in the EP Prenos. In fact, the budget for EP BiH was not prepared by the Prenos, and is not adequate for the SOW. She has agreed with the other two EP Prenos divisions that the PT be changed to give more direct responsibility to the Prenos. However, at the same time she says that the three EPs all have different designs and they are not properly coordinated. It is not clear whether her dissatisfaction is mainly with the PT or within her EP, who have taken the management of the project out of Prenos.
- With Merritt and Amila, met with EP RS GD Dakic. Merritt informed Dakic that another audit is being performed on the activities of Mijatovic. He told him that Mijatovic is at the heart of past corruption and has intent in the future to harm or destroy the ISO. Dakic said that Mijatovic has enough strong political support that he can ignore Dakic's instructions. He has strong support from Milovanovic of the MoE and they both come to Dakic together to get their way. Dakic said that if he attempted to fire Mijatovic, he would go to the Government and get support against Dakic.
- In a meeting with ZEK and Barbeau and Alex of SEETEC, we discussed the transitional market. Omer stated that the control systems of the three EPs will disappear when the ISO is formed. EP BiH is already supplying direct information to ZEK through fiber optics. Barbeau suggested that the bilateral contracts be full service contract for which the gencos would be responsibility. However, this would mean that there would be no need for the ISO, and BiH would not be transitioning towards a single market. Barbeau said that it makes no sense to retain the SEETEC draft of the Market Rules, but that he would propose a set of transition market rules. Omer said that ZEK will prepare a discussion paper on the ISO operation.
- With Amila, met with SERC and the ISO/Transco WG to discuss the tariff methodology and other items. There was a lot of discussion on ancillary services, and the understanding of how they are supplied and regulated. There is not a good understanding of the market in SERC, nor of the way the ISO works. Sabanovic stated that ancillary services and all other services are defined by UCTE, so there should be no misunderstanding of them. When losses were discussed as part of ancillary services, I stated that they are not an ancillary service, but are just an extra charge of the user for electricity not delivered. Mijatovic said that losses should be collected by Transco, and would be used for the development of the transmission network. I responded that there is no economic or technical argument to support his contention, and that the network who causes the losses cannot collect for them. What was not said in the meeting but was argued later was that Transco should have a Trader's License to be able to buy and sell these losses. Of course, that is off-the-wall, and should not be allowed. Commissioner Dokic supported Mijatovic and stated that Transco should collect for the losses on the system.

- Merritt and Amila met with Minister Zigic and the two Federation EP GDs to discuss the revisions to the Action Plan recommended by USAID. Both EPs approved the revised plan and Zigic appointed a WG to work out the details and to produce a final plan. Srdanovic is to lead this effort.
- Met with Omer at ZEK. Learned that Simon Bucknall, the ISO IM is also a consultant to the Regulatory Commission in Serbia, and spends time in Belgrade on this assignment. Is this why he doesn't perform his job as the ISO IM? Bucknall has requested that ZEK prepare a detailed schedule for the activities needed to form the ISO. The ZEK Management Board will meet within the next week or so. On the agenda will be the budget for the remainder of the year and the retention of the existing management of ZEK through the formation of the ISO. We must ensure that the three EP GDs are in agreement with this, and also that Dakic does not have Mijatovic attend in his place.

Issues

- The revisions to the Federation Action Plan were accepted by both Federation EPs and a WG was appointed by Minister Zigic to work out the details.
- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- Active plans of EP RS to continue construction of the Fatnicko Field Tunnel and the Buk Bijela HPP Project
- Legal suit against EP RS, by SB Soft may result in verdict that would mean that EP RS is obliged to pay about 100 million KM to this software company. Entire issue is very sensitive and politicized; any active involvement on our part may result in negative consequences.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- After our recommendation were made to the RS Government Tender Commission for revisions to the Buk Bijela Concession Documents that would limit the liability to the EP and to the RS Government, they removed the offending documents from the required bid documents so that they are now not subject to public scrutiny. Technical bid evaluations for this project continue to be evaluated, and a special environmental committee has ruled that a proper EIS has not been produced.

- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The tender for billing and collections software of EP HZHB is not being coordinated with the other EPs
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca
- Discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field have not been concluded but some progress is being made
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Federation Government adopted the Coal Mine Action Plan that is based on the German Study on the Rehabilitation of the Coal Mines, which is in contradiction of the recommendations that were made in the Electricity Action Plan. The Mine Action Plan has to be harmonized with the Electricity Action Plan.
- Elektroprenos EP RS has purchased an expensive facility in downtown Banja Luka to serve as the HQ of the BiH Transco. This should be the responsibility of the BiH Transco Management Board, which has yet to be elected.
- Elektroprenos EP RS is constructing a new 400 KV line that will connect Ugljevik directly to Serbia, in spite of a prior decision of the EP not to construct this line. The Special Auditor has discovered that equipment to construct this line came from the Power 2 and 3 projects.
- The allocation of the SCADA assets between ISO and Transco is unresolved, and must be agreed by EBRD before ISO can be registered. The unresolved issues relate to the ownership of the RTUs and the ISAS.

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – MAY 2005
PA GOVERNMENT SERVICES, INC.

Activities

- With Merritt, met with Alain Godeau of SEETEC to discuss the work on the Market Rules that SEETEC has taken responsibility to write. Alain admitted that he cannot control Stephane Barbeau, who has been the task leader of this project, which has yet to produce anything that is useful for the market in BiH. Alain said that he is adding a new man to the team, Manuel Tinoco, and that he believes that Manuel will be able to produce what is needed. Manuel will work with Stephane and Alex Pramagioulis.
- Met with Omer Hadzic of ZEKC to review the actions of the IM and the ISO Board of Directors. They have published the announcement for applications for the GD of the ISO on 17 May, with instructions that the applications be submitted by 31 May. A three member commission of the Board will review the applications and will create a short list for interviews starting 8 June, and will plan to announce the winner at their Board Meeting in late June. Simon Bucknall, the IM, has told ZEKC that the Board has rejected the long list of comments that were posed by Paul Brennan, and that they believe that registration can occur about the end of June.
- Met with the SEETEC crew consisting of Alain Godeau, Manuel Tinoco, Stephane Barbeau and Alex P., along with John Williams, the advisor to the Energy Department of MOFTER to discuss the market design and the requirements for Market Rules in the transitional market that will begin to operate next year. We discussed the Phase 1 transitional stage in great detail, and spent some time describing what Phase 2 will look like, and the events that will determine the change from Phase 1 to Phase 2. There was no disagreement with the market as described in this meeting, and SEETEC agreed that they could produce the Market Rules that would apply to this market.
- The same attendants to the above meeting, with the exception of Godeau, met with Omer Hadzic of ZEKC to discuss the technical details of the operation of ZEKC, and how Omer sees that operation carrying over into the beginning of the ISO during Phase 1 of the market.
- Met with the SEETEC contingent and John Williams to discuss a proposal by SEETEC to develop a Transco/ISO operations agreement. After much discussion, it was concluded that all of the issues that SEETEC had suggested be included in this agreement were already included in other documents, and that such an agreement was not needed.

- With Merritt and Amila, met with Enver Kreso to discuss the proposed budget that the ISO Board submitted for the salaries of the GD and the Board members. The salaries that they requested appeared to be high, and because the EPs will have to approve this budget for 2005, we requested Kreso's thoughts on the proposed budget. He agreed that these salaries are too high, higher than for his EP with its 5700 employees. He agreed to meet with the other two EP GDs and to reach an agreement on appropriate levels for these salaries that would be approved by the EPs.

Issues

- The revisions to the Federation Action Plan were accepted by both Federation EPs and their Boards, and by the Federation Government.
- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- Montenegro has backed out of the Buk Bijela project, and the RS Government is discussing redesigning the project so that it is entirely within the RS and moving ahead with it.
- Legal suit against EP RS, by SB Soft may result in verdict that would mean that EP RS is obliged to pay about 100 million KM to this software company. Entire issue is very sensitive and politicized; any active involvement on our part may result in negative consequences.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.
- Discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field have not been concluded but some progress is being made.
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for

Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.

- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Federation Government adopted the Coal Mine Action Plan that is based on the German Study on the Rehabilitation of the Coal Mines, which is in contradiction of the recommendations that were made in the Electricity Action Plan. The Mine Action Plan has to be harmonized with the Electricity Action Plan.
- Elektroprenos EP RS has purchased an expensive facility in downtown Banja Luka to serve as the HQ of the BiH Transco. This should be the responsibility of the BiH Transco Management Board, which has yet to be elected.
- Elektroprenos EP RS is constructing a new 400 KV line that will connect Ugljevik directly to Serbia, in spite of a prior decision of the EP not to construct this line. The Special Auditor has discovered that equipment to construct this line came from the Power 2 and 3 projects.
- The allocation of the SCADA assets between ISO and Transco is unresolved. The unresolved issues relate to the ownership of the RTUs and the ISAS.

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – JUNE 2005
PA GOVERNMENT SERVICES, INC.

Activities

- Attended the donor's meeting at the World Bank prior to Iftikhar's general meeting with the industry. Kuerton of the EC reported that the Transco IM, Brian Wharmby, has resigned effective July 1, when his one-year contract is over. He doesn't have adequate time available to perform the job required of the IM. IPA has offered a replacement, but she doesn't have the technical degree required by the Law, and the consensus was that IPA must continue to look for someone who meets the requirements. The EC said that when they receive the short lists of applicants for the GD of the two companies, they will send it to the IC for vetting.
- In the General Meeting at the World Bank, Iftikhar reported that the Bank-sponsored regional investment study has been completed and the draft sent to the countries for review. He also reported that companies in the FBiH are not respecting the Bankruptcy Law that requires them to register for bankruptcy after they have been insolvent for three months.
- Met with Omer Hadzic, GD of ZEKC, to discuss the interim budget for the ISO including the formation costs. He said that the ISO Board has sent the budget to SERC for their approval. We also discussed the applicants for the position of GD of the ISO.
- At the WB wrap-up meeting, Iftikhar discussed the large disagreement that EP HZHB has with the new tariff methodology that FERC has proposed. He said that the EP stated that it was completely unacceptable, and that this could create problems in the future if their concerns were not taken into account. The three EP GDs, who form the Management Board of ZEKC, said that they had reviewed the proposed budget submitted by the new ISO Board for salaries for the Board and the GD. They are reviewing the ISO budget for the remainder of 2005 because SERC said that their interim tariffs would not take effect until 2006, and that it is the responsibility of the EPs to approve the ISO's budget for 2005. All three EP GDs said that the proposed salaries for the ISO Board were too high and that they would recommend salaries more in line with those of the EPs themselves.
- In a phone call from Radovic, the lawyer for EP RS, we learned that Mijatovic has hired his local Financial Institute of Banja Luka to perform the asset re-allocation between the transmission division of EP RS and the other daughter companies. The result is that the transmission asset value has increased by about 15%

compared to the valuation done by Ernst and Young for all of the EPs' transmission assets. He requested that we attend a meeting in Trebinje to discuss this subject.

- Participated in a full day seminar with Alain Godeau that was to brief the new Boards of the Transco and ISO on the status of the formation of these companies. The President of the ISO Board announced that the GD of the ISO would be announced in a Board meeting on 22 June, and that application for registration was planned to be submitted by the end of that week. In general the meeting served as a platform for Godeau to preach to the room full of people, and only a few times were the audience given a chance to ask questions and participate. The useful part of the meeting could have been accomplished in two hours.
- With Amila, met with Dabovic of EP RS to discuss the status of the production and sales of EP RS during the spring months. Because of the heavy rains, they have had more water than they could use to generate, and have had to spill some. In addition, because of the failure of the Block to operate, there was a time when they could not export at all to fulfill their contracts. They had to shut down a TPP and spill more water, and lost the potential to sell 13 GWh of electricity. This is a critical problem that the ISO should resolve quickly. Because of this, lake Bileca is now full and they have about 120 GWh of potential energy more than average.
- With Amila, met in Trebinje at EP RS with the two Deputy GDs of EP RS, Maric from the RS MoE, Mijatovic from the transmission division, Deloitte and Touche, who are advising on the redistribution of shares due to the revaluation of assets and the separation of transmission from the rest of the EP, and KPMG, who are revaluing the remaining assets other than the transmission assets. Mijatovic made a strong argument for his revaluation methodology and new shareholding that was performed by the Financial Institute of Banja Luka based on the previous ratio of asset values that was done on the 2002 asset values. It became clear that he wanted to do this because it valued his transmission assets higher than the officially agreed revaluation that has been performed by Ernst and Young and American Appraisers. After a long and heated discussion, the EP did not agree with Mijatovic and said that they would use the revaluation that has been done by E & Y revaluation for the transmission assets and the one being performed by KPMG for the remainder of the assets.

KPMG reported that performing a bottom-up valuation of the daughter companies could cause a lot of problems because of the unresolved liabilities between the daughter companies, and they recommended doing a top-down valuation of the parent company in order to resolve the inter-company liabilities. To do this, the corporate structure of the EP would have to be changed into a single JSC, rather than an HQ JSC and separate daughter company JSCs. This is in line with the recommendation that we supported with the RS Government last month, upon which no action has been taken. Mijatovic strongly argued against this move, as he and Milovanovic are working towards having the Government own directly all of the daughter companies. Milovanovic is appointed the shareholder's director for three of these companies now, and in this position will not have any supporting responsibility to the HQ of the EP.

- With Merritt and Amila, met with EP RS GD Dakic and Culic, GD of TPP Gatcko. They requested that we review their tender documentation and the evaluation of the bids for some equipment for the Gatcko coal yard. Dakic reported on a meeting in Foca the day before where they discussed Buk Bijela. Since Montenegro pulled out of the project, the project is dead. They will have to start over completely to create a new project, including feasibility study, environmental study and economic study. He said that Minister Gligoric understands that the project is dead.
- With Merritt, Jane, Amila and Elma, met with FBiH Minister Zigic and his staff to discuss a social safety net and the formation of a WG to harmonize the coal mine AP with the electricity AP. On the social safety net, we gave Zigic the results of several studies that have been made on the subject in the SEE Region, and commented that the recommendation made by the Financial Institute of Banja Luka are similar to our views on the subject. This is for the Government to develop a policy, and to designate those people who need assistance. This is not a job for the regulators. When the Government develops a policy, then the regulators will implement that policy. The implementation of Block Tariffs, which provide for cheap electricity for a minimum number of kWh for every user, is not a recommended solution, but could be employed for a year while the Government works to identify those needy customers.

On the commission to harmonize the coal mine AP with the electricity AP, Zigic has appointed Sokolovic and Srdanovic of the Ministry to lead this effort. The EP has appointed members to the commission, as have the coalmines. This commission will meet by mid-July. Merritt said that I would be available to work with them as requested.

- Met with two members of the EC Monitoring Team that is monitoring the project funded by the EC. This is the project to supply the Independent Members for Transco and the ISO, along with a legal advisor for the formation of these companies. My response was that the contract that the EC had with its contractor was not sufficient to cover the scope of work; that the schedule of the work was not maintained; and that the contractor did not communicate with the rest of the donor community in performing this work. As a result, the outcome has been less than successful.
- With Merritt, Ankica and Amila, met with GD Kreso of EP BiH to discuss the plans for staffing the ISO and how the EPs will be involved in the future. Kreso said that the ISO MB has agreed that the ZEK MB, consisting of the three EP GDs, will act as an advisory council to the ISO during the next six months. In this role, they will be able to address some of the problems that we now see that need to be resolved in the ISO. I commented that one of the first problems that should be addressed is a critical review of the SCADA project, and the possible replacement of the project manager with a full-time hands on manager that can deal adequately with the transmission divisions of the EPs and with the contractors. Kreso agreed to look into the possibility of finding such a person within EP BiH.

- With Merritt, Ankica, Heather from the Embassy, Jane and Amila, met with FBiH PM Hadzipasic, his Finance Minister Vrankic and his Minister of Social Affairs, Vignjevic, Minister of Energy, Mines and Industry, Zigic, to discuss the provision of a safety net for the most needy customers who require some assistance to pay for their electricity. In response to the options that we presented to provide such a safety net, Hadzipasic said that such a program would cost 50 to 80 million KM, and there was no money for this in the budget, which is already behind by 100 million KM for 2006. Minister Vrankic said that his information shows that about 80% of the people need such a subsidy, and that those families with children have a greater need than the pensioners. Minister Vignjevic said that the problem is not as bad as is publicly thought, and that the grey economy provides for employment for about half of those who claim unemployment. Also, this is the constitutional responsibility of the cantons and municipalities, and they have social centers to take care of these problems. The central government should not get involved in providing a social safety net program.

Minister Zigic said that the FBiH Government does need to find the budget to take care of this problem either in its budget or in that of the cantons and municipalities, and that they must work together to identify who the needy customers are. He believes that the funds that will be required are much less than the 50 to 80 million KM when those vulnerable customers are identified. Minister Vrankic said that there are two reasons that tariffs will increase, those caused by "restructuring" and those caused by an increase in the VAT. These differences must be discussed so the public understands the difference.

PM Hadzipasic said that the FBiH Government did not increase tariffs last year when it was recommended by the Expert Tariff Group, and they will not support any increases in the future. Instead, the Government will support the reduction of costs to produce electricity via reduced staff, more efficient operations, and modernization of the generating plants and the coalmines, as well as the building of new generating plants with foreign investments. He said that the Government will not forget about a social safety net, but must first resolve who will pay for it. He said that he would have been much happier with this meeting if it were to have addressed how to reduce coal prices from 3.9 KM/GJ to 3.2 KM/GJ. The EPs are not well run and are not efficient and the coalmines are very inefficient.

Merritt said that you cannot lay off miners without providing them compensation. Money is needed to reduce employment in the mines and the EPs, and what is the source of this money? Zigic said that we spent two years longer than was necessary to get an Action Plan for restructuring the electricity sector, and since the Action Plan addresses all of these issues, this two-year delay has been very costly. Since 1996 one billion KM has been invested in the EPs but nothing has been invested in the coalmines. Until we make the proper connections between the coalmines and the TPPs, there can be no resolution to this problem. If we reduce the coal price from 3.9 Km/Gj to 3.0 Km/Gj, it would result in a savings of 150 million KM over three years, and that would be enough to pay for the reform of the coalmines and the EP. If we do not make this investment, then the cost of coal will become 5 KM/Gj next year, and 7 Km/GJ in another two years, and finally the industry would die.

Hadzipasic said that the Government will not support any increase in electricity tariffs for large industry, for any industry that exports or for households. In fact, he said that tariffs for large industries and for exporters should be decreased. Finally, (and Minister Vrankic was out of the room at this time) he said that he hopes that FERC does its job properly and changes the situation where EP BiH and the coal miners have been subsidizing the high profits of EP HZHB.

Issues

- The revisions to the Federation Action Plan were accepted by both Federation EPs and their Boards, and also by the Federation Government.
- The FBiH Parliament has accepted the modification of Article 85 of the FBiH Electricity Law that says that neither House has to approve the Action Plan – Part 1, and this decision should be Gazetted by the first week of July.
- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- Montenegro has backed out of the Buk Bijela project, and the RS Government has agreed that the project is dead and will have to start from scratch if it is resurrected.
- Legal suit against EP RS, by SB Soft may result in verdict that would mean that EP RS is obliged to pay about 100 million KM to this software company. Entire issue is very sensitive and politicized; any active involvement on our part may result in negative consequences.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.
- Discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field have not been concluded but some progress is being made

- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Federation Government adopted the Coal Mine Action Plan that is based on the German Study on the Rehabilitation of the Coal Mines, which is in contradiction of the recommendations that were made in the Electricity Action Plan. The Mine Action Plan has to be harmonized with the Electricity Action Plan.
- Elektroprenos EP RS has purchased an expensive facility in downtown Banja Luka to serve as the HQ of the BiH Transco. This should be the responsibility of the BiH Transco Management Board, which has yet to be elected.
- Elektroprenos EP RS is constructing a new 400 KV line that will connect Ugljevik directly to Serbia, in spite of a prior decision of the EP not to construct this line. The Special Auditor has discovered that equipment to construct this line came from the Power 2 and 3 projects.
- The allocation of the SCADA assets between ISO and Transco is unresolved. The unresolved issues relate to the ownership of the RTUs and the ISAS. If these assets are to go to Transco, then the SCADA design will have to be such that the ISO has complete and exclusive control over the operation of the system.

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – JULY 2005
PA GOVERNMENT SERVICES, INC.

Activities

- Met with Omer Hadzic of ZEKC and John Williams and Biljana Trivanovic of MOFTER to discuss the draft report from SEETEC for the market design. We agreed that the report did not comply with the agreements that were reached during the three days of meetings with SEETEC in May. The report consists of an Executive Summary that contains most of the points that were agreed but also contains some items that were not agreed and are not acceptable. The body of the report contains much of what SEETEC has been stating during the past two years and is completely unacceptable. The consensus of the meeting was that we respond to the Executive Summary and refuse to address the remainder of the report. It was left that I prepare a response that will be agreed by all, and that will be sent from ZEKC to SEETEC prior to their next visit.
- With Amila and Jane Wilson, met with the FERC Commissioners to discuss the tariff methodology. FERC does not want to introduce inter-company tariffs because it is such a controversial subject. However, we stated that the Law states that FERC must create a single market, and inter-company tariffs within the Federation are required to do that.
- Met with Omer Hadzic, GD of ZEKC, to discuss filling the management positions in ISO. We identified the eight other people that would be the most desirable to fill those positions that also satisfy the equal ethnic representation that is required by the Law. Omer said that the new ISO Board has *unanimously* requested that two Deputy GDs be appointed that would report to the GD and have all other managers report to them. This is as was recommended by KEMA, and is the same form that Transco is considering. However, I stated that the ISO is such a small organization that it makes no sense to have this extra layer of management. The Board is concerned that all three ethnic groups won't be represented at Board meetings. My proposal is that we appoint the two most appropriate managers of the other two ethnic groups to be deputies, but stay at the same level as the other managers. Omer agreed to propose this to the Board and to lobby with the ZEKC Board to promote this idea.
- With Merritt and Amila, met with Mr. Sokolija, a member of the Transco Management Board, to discuss the problem of accepting Mijatovic as the GD of the Transco. Since the Board is split on the nomination of Mijatovic, who is supported by the members from the RS, and Tomic who is supported by the Croats, it is critical as to how the Bosniaks will vote.

- With Merritt met with EBRD to discuss the existing SCADA project and the new projects that EBRD will be proposing shortly. For the SCADA project, we announced the proposed new Project Management, and EBRD accepted the proposal. There are several problems that require quick action so that we don't incur penalties from Siemens. First, the building lease needs to be finalized and approved. Because Kreso had agreed that this would be done, Merritt agreed to check on this immediately/ (He found that it was agreed and should be ready to be signed.) Another problem is to get agreement on the TNMS. He has requested that Omer institute a procedure of sending a letter from the PM to those who need to respond with a one month response time, stating the results if no response is received. The new project that the Bank will be proposing is to provide TA to the distribution companies to assist them in restructuring. They will tender for a consultant to prepare the TOR and then tender for this work.
- Attended the Donor's Meeting along with Merritt and Ankica and most of the other donors and their consultants, as well as MOFTER. Merritt stated that the appointment of the Transco was not good news, and questioned the procedure for the appointment because the IM appointed Mijatovic in spite of the Board voting 4 to 3 for Tomic. Kuerton of the EC defended his consultant by saying that Mijatovic was the most qualified person, and that the Board's vote was politically motivated. It was agreed that the employment contract for the GD would be very important, and should include termination clauses for misbehavior. The Board considered a one-year probation period, but in the end decided against it. Godeau reported on the progress of the Transco WG to prepare for registration and formation, and discussed the disagreement on the number of regions that the Transco will have. John Williams asked why the formation and the restructuring were being attempted at the same time, because both of these steps are difficult and it will be more difficult to try to do them at the same time. Merritt reported that USAID is moving ahead with the unification of the regulators and with the gas law, and is hoping to have laws written by the end of this year.
- The ISO was officially registered on 12 July.
- In a meeting with Omer Hadzic and Mirsad Sabanovic of the ISO, agreed to discuss with Alain Godeau of SEETEC the conditions under which the ISO would agree to transfer the RTUs to the Transco. These conditions include: (1) the Telecommunications Network Management System (TNMS) would be located in the ISO and would belong to the ISO, as would its back-up system; (2) The SCADA would be designed so that all data from the field will come directly to the ISO, and that there be no parallel data collecting at any of the substations.
- Met with Hadgic, Sabanovic and Godeau at the ISO and gave Godeau the conditions that the ISO has agreed. Godeau was pleased with this position because it resolves the asset problem that the Transco will own all of the equipment in the field, and he agreed that the ISO must assure that it has complete and unique control of the system. He will meet with the Transmission Working Group and discuss this with them and try to get their agreement on these points. If there are any problems, then we will set a joint meeting with the ISO and TWG to discuss.

- Met with Alain Godeau of SEETEC after he had met with the TWG and with Mijatovic separately. He reported that the TWG had no problems with the position that the ISO had presented for the interface with Transco, and so he will describe these agreements in a position paper that, after my concurrence, he will send to all parties. He wrote such a paper, which included most of my comments, and sent it to the IC and the parties within BiH.

HOWEVER, I later learned that in his meeting with the TWG and Mijatovic, Godeau only discussed that fact that the ISO has agreed that the RTUs should be owned by the Transco. He did not discuss the quid-pro-quo that SCADA will be designed so that the ISO will be the exclusive recipient of all of the data. So, Godeau continues his unpredictable and unreliable performance, and we can expect that this matter is not finished.

- With Mirsad Sabanovic from the ISO, met with Manuel and Alex of SEETEC to discuss the details of the transition market for which SEETEC is to write the Market Rules. Most of the issues of the first two transition stages of the market were agreed, and these are the stages that will be covered in the Market Rules. These two stages are expected to last for three-to-four years. In spite of the ISO stating that they have no interest in any future market at this time, SEETEC said that their report will contain a section on some future stage of the market that will include a different financial settlement scheme that would involve a financial clearing house – something that we suggested would not be available in BiH in any foreseeable future.

During the meeting, Faruk told of a telecom he had with Mijatovic complaining about the Position Paper that Godeau wrote on the interface between Transco and the ISO. He said that he does not agree with the positions taken in this paper, and that all of the issues of disagreement still exist. Why are we not surprised?

- With Amila, met with the Harmonization Commission that has been formed by the FBiH MoE Zigic to harmonize the Action Plans of electricity and the coalmines. This was the second meeting of this group (we weren't notified of the first meeting). During the first meeting, the participants could not agree on the way forward towards restructuring. EP BiH, supported both Action Plans that stated that the mines would be restructured as stated in their Action Plan so that a recommendation could be made to the MoE about which mines should be transferred to the TPPs. The mines recommended that a different approach be taken by which the mines should first be transferred to the EP. And then restructured. The reason given for this alternative approach is that the mines do not have the resources to restructure themselves, and need the resources of the EP to be able to do that. The EP has no interest in taking over the liabilities of all of the mines, and suggest that an independent financial consultant be hired to audit the mines to provide the financial statements so that the EP can make a decision about which mines they would be willing to acquire for the TPPs. EP BiH will develop a TOR for such a study for the next meeting.

- After final meeting between SEETEC and the ISO to discuss the market design during the early transition stages, SEETEC committed to have a draft report by 15 August for review, and a draft of the Market Rules by 15 September. They will return for a meeting to discuss the Market Rules during September. They plan to have a final Market Rules by the first week in November.
- Met with Omer Hadzic at the ISO to discuss the organization of the ISO and the proposed management structure. His proposal meets the requirement of equal representation of the three ethnic groups with Deputy GDs of the other two groups, while also maintaining a flat management structure and not adding a separate management layer for the deputies. This now needs to be agreed by the EP GDs, and we will lobby them to support it. The ISO Board had requested that the two deputies be on a separate management layer, but this makes no sense in such a small organization as the ISO.
-
-

Issues

- The revisions to the Federation Action Plan were accepted by both Federation EPs and their Boards, and also by the Federation Government.
- The FBiH Parliament has accepted the modification of Article 85 of the FBiH Electricity Law that says that neither House has to approve the Action Plan – Part 1, and this decision was Gazetted on 4 July 2005.
- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- Montenegro has backed out of the Buk Bijela project, and the RS Government has agreed that the project is dead and will have to start from scratch if it is resurrected.
- Legal suit against EP RS, by SB Soft may result in verdict that would mean that EP RS is obliged to pay about 100 million KM to this software company. Entire issue is very sensitive and politicized; any active involvement on our part may result in negative consequences.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.

- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.
- Progress has been achieved in discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field.
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Federation Government adopted the Coal Mine Action Plan that is based on the German Study on the Rehabilitation of the Coal Mines, which is in contradiction of the recommendations that were made in the Electricity Action Plan. The Mine Action Plan has to be harmonized with the Electricity Action Plan.
- Elektroprenos EP RS has purchased an expensive facility in downtown Banja Luka to serve as the HQ of the BiH Transco. This should have been the responsibility of the BiH Transco Management Board, which that was not elected at that time.
- Elektroprenos EP RS is constructing a new 400 KV line that will connect Ugljevik directly to Serbia, in spite of a prior decision of the EP not to construct this line. The Special Auditor has discovered that equipment to construct this line came from the Power 2 and 3 projects.
- The allocation of the SCADA assets between ISO and Transco is unresolved. The unresolved issues relate to the ownership of the RTUs and the ISAS. If these assets are to go to Transco, then the SCADA design will have to be such that the ISO has complete and exclusive control over the operation of the system.

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – AUGUDT 2005
PA GOVERNMENT SERVICES, INC.

Activities

- With Amila, met wit the Federation Commission to Harmonize the Electricity Action Plan with the Coal Mines Action Plan. Aganovic presented the proposal of EP BiH that calls for performing the background evaluations that are called for in the Coal Mines AP prior to making the decision on which of the mines will be joined with the EP for further restructuring. Basic agreed that obtaining this information is necessary for this decision, as did Sokolovic. The representative from the mine that had proposed the alternative solution was not present.
- Met with Hadzic, GD of ISO, to discuss the critical items for the upcoming Management Board meeting. In spite of the supposed agreement that EP BiH will pay their share of the rent for the building for the remainder of the year, ISO has not received a contract from them. The organization structure has been set, and all of the management positions have been allocated by ISO except for the manager of human resources, and that position will be tendered. The people to fill the positions will not be proposed to the Board this time, but just the management structure. Omer said that the PIUs of the EPs are against changing the PM of the SCADA Project. It is not clear to me whether Omer supports this change, as he has been the PM.
- The ISO Board approved the management structure of the ISO, but the Serb members requested a specific person for the deputy GD, who is a different person that Omer wants. The Board also could not agree on the composition of the SCADA PTT. The Serb Board members requested that the PM be a Serb. The PM that we have recommended, and with which Hadzic agreed with Kreso, is Sabanovic. To date, Omer has refused to have Sabanovic involved with the project.
- In response to the Transco Management Board's appeal of the IM's decision on the Transco GD, BiH PM wrote a letter to the Board recommending that because the location of the Transco will be in Banja Luka, the GD should be either a Bosniak or a Croat, but not a Serb.

Issues.

- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just

forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.

- The RS Government has reduced the authority of the EP HQ over the daughter companies such that the daughter companies are not subject to control by the HQ. This is in contradiction to the organization structure that was agreed in the Action Plan, and needs to be corrected quickly, so that the agreed holding company can be legally formed.
- Legal suit against EP RS, by SB Soft may result in verdict that would mean that EP RS is obliged to pay about 100 million KM to this software company. Entire issue is very sensitive and politicized; any active involvement on our part may result in negative consequences.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.
- Progress has been achieved in discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field.
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Federation Government adopted the Coal Mine Action Plan that is based on the German Study on the Rehabilitation of the Coal Mines, which is in

contradiction of the recommendations that were made in the Electricity Action Plan. The Mine Action Plan has to be harmonized with the Electricity Action Plan.

- The allocation of the SCADA assets between ISO and Transco is unresolved. The unresolved issues relate to the ownership of the RTUs and the ISAS. If these assets are to go to Transco, then the SCADA design will have to be such that the ISO has complete and exclusive control over the operation of the system.

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – SEPTEMBER 2005
PA GOVERNMENT SERVICES, INC.

Activities

- With Amila, attended a meeting at the ISO to discuss the market design with the senior ISO staff. Mirsad Sabanovic led the discussion with a presentation on the operation of the market starting in January 2006, and the changes that would have to be made to achieve this market. All of the changes will have to be incorporated into the Grid Code and the Market Rules.
- With Amila, met with Dabovic of EP RS. He stated that it is the understanding of EP RS that ten percent of the EBRD budget for the SCADA will be allocated to the EPs to be spent on generation control centers. [This is not spelled out in the EBRD contract, and this is the first I have heard about it. When I asked Hadzic about it later, he laughed it off and said that it would be taken care of later. It smells fishy to me.]

Dabovic complained that all of the high voltage lines between BiH and Serbia are out, and so they cannot transfer as much power as they had planned, and are suffering a financial loss as a result. He said that this was not planned in the annual outage plan, and is a problem that the ISO should not have permitted and should be corrected in future planning.

He reported on the results of the tender that EP HZHB made to purchase power for next year. They received four acceptable bids – one for more than 40 euro/MWh and the other three at about 37 euro/MWh.

- Met with John Williams along with Alain Godeau and Peter Czech of SEETEC. Alain reported on a meeting between the Transco Advisory Committee and the EC. The position of the EC is that because the Transco IM nominated Mijatovic for GD, he should be permitted to serve in that capacity. However, Mijatovic should be told of the expectations of the Management Board. The permanent members of the Board are now supporting the IM's decision on Mijatovic, but the majority members are fearful that the new management team will attempt to take all expertise out of Sarajevo and move it to Banja Luka.
- With Howard Sumka, Merritt, Ankica and Amila, met with RS Prime Minister Bukejlovic In Banja Luka. Howard told the PM that there is a need for the Government to quickly pass the Decree on Reorganization of EP RS that has been prepared by the Ministry of Energy because this decree supports the agreements that the Government and the RSNA made in the Action Plan. Bukejlovic responded that the Government does intend to take some action to

centralize the management of the EP, but that they still studying what kind of a holding company they will have. Merritt said some good words about EP RS GD Dakic, and said that care must be taken in reading the Supreme Auditor's Report on the EP because the body of the report is not consistent with the conclusions given in the cover letter. The PM responded that the Government has no choice but to believe its Supreme Auditor, but that GD Dakic will have an opportunity to defend himself.

- Met with Mirsad Sabanovic to review the draft of the market design that SEETEC sent. We agreed that we do not need another report discussing the design of the market, but we need to see the draft of the Market Rules that were scheduled to be delivered by mid-September. Omer Hadzic sent a letter to Godeau stating that SEETEC was late and was endangering the overall schedule of forming the ISO.
- With Merritt and Amila, met with EP BiH GD Kreso. We discussed some of the problems of transforming ZEK to the ISO, and the fact that Omer Hadzic is slow to take up these challenges. We agree that the MB of ZEK and the MB of the ISO must work together to assure that all authorities from ZEK get transferred to the ISO. Kreso said that the chairmen of both Boards should coordinate this, and that he would assist in making it happen.

Kreso reported on several attempts by different companies and individuals to make special deals for their benefit that would be at the expense of the EP. In some of these, the Government is intervening on the behalf of personal friends and political allies. These special deals include the sale of assets and the building of new hydro plants. He is using his best efforts and those of his MB to fight these attempts.

- Met with Omer Hadzic of the ISO and Peter Czech and Peter Anderson of SEETEC to discuss the future investment requirements of the ISO. Omer said that the highest priority for investment is in meters for the high voltage system. He also said that they need to know the number of regions that Transco will have to complete the design of the SCADA. All agreed that the Transco does not need to have real-time data. There was also agreement in the planning process between Transco and the ISO.
- With John Williams and Mirsad Sabonovic, spent a couple of days with the SEETEC market team discussing the details of the transition market for Phases 1a and 1b. The meeting was longer than it should have been because we didn't have draft Market Rules to start the discussions, but were developing these rules during the meetings. At the end of the meetings, it appears that there is agreement on the market design, but we will not be sure until we see the draft of the Market Rules themselves. We are still not sure when we will receive them, but have requested that it be within one month.

Issues.

- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- The RS Government has reduced the authority of the EP HQ over the daughter companies such that the daughter companies are not subject to control by the HQ. This is in contradiction to the organization structure that was agreed in the Action Plan, and needs to be corrected quickly, so that the agreed holding company can be legally formed.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.
- Progress has been achieved in discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field.
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The allocation of the SCADA assets between ISO and Transco is unresolved. The unresolved issues relate to the ownership of the RTUs and the ISAS. If these assets are to go to Transco, then the SCADA design will have to be such

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – OCTOBER 2005
PA GOVERNMENT SERVICES, INC.

Activities

- With Amila, attended a meeting at USAID hosted by Merritt and Ankica and attended by the senior management of EP BiH and the senior management of ISO along with Josip Polic of EBRD to discuss the funding for the lease and renovation of the ISO headquarters building. EP BiH has said that they will agree to continue to supply on third of the funds required for ISO through 2005. The EP said that it will also fund the start of the rehabilitation of the office space for ISO in the Energoinvest building until ISO's tariff becomes effective, however it proposes using its own funds instead of the EBRD loan. Merritt asked why it wanted to use its own funds and Kreso responded that their money would have a lower interest rate than that of EBRD.

Hadzic reported that the Managing Board of the ISO has requested that ISO find a location where it would own its office space. Kreso quoted from a letter written by Hayes of OHR that stated that ISO could not obtain space in any EP-owned premises. Merritt stated that because of the agreements made with BiH Parliament, ISO would not be permitted to move from its present office space.

Kreso committed that WP BiH would prepare a protocol on the funding of ISO for the remainder of 2005 and for the interim funding of the rehabilitation work on their present facilities. A draft of this protocol would be available on 25 October and then Kreso committed to discuss it with the other two EP GDs to get their concurrence.

- Met with Omer Hadzic of ISO to discuss schedule of items to be accomplished before the formation of ISO would be complete. Other than the funding issues that were reported above, there is the business plan, the transfer of the loan to EBRD, application for an interim tariff and the resolution of the assets between ISO and Transco. Omer said that Simon Bucknall, ISO IM, has agreed with our position on the ownership of the TNMS, but is not certain of Bucknall's position on the ownership of all of the data from SCADA. He agreed that it is critical that *Bucknall supports our position on ISO owning all of this data*. With regard to the money to rehabilitate the building, he said that he has "reserved" 5.6 million euros from the EBRD loan for ISO – 3.1 M euros for equipment and 2.5 M euros for rehabilitation of the building. I told him that if the loan from the EPs turns out to be cheaper, then he should reduce the 2.5 M euros that he takes from the EBRD loan. We should watch this closely to make sure that none of the 2.5 M euros goes somewhere it should not.

- With Merritt, met with John Williams and MOFTER to discuss the problems that IPA is having with the EC. The problem is a contract dispute that has caused IPA to stop working in BiH, and that has caused the formation of Transco to be delayed. Minister Doko has not informed the Council of Ministers about the problem at the request of IPA so that IPA could try to resolve the problem.
- Met with Mirsad Sabanovic of ISO to discuss the work on the Market Rules and the Grid Code and other items on formation of ISO. SEETEC is to send a draft of the Market Rules within a week, that will result in it being two months late. The draft of the Grid Code will be completed before the end of the month, and will be sent to the Technical Committee composed of members from the EPs for their review. There has been a lot of discussion about the planning function for system expansion – who should do what between Transco and the ISO. Mirsad assured that the transmission divisions of the EPs have no expertise in system analysis or system planning. All of their expertise lies in planning of lines and substations. There are less than a half dozen people in BiH that have such experience, and none are in any of the transmission divisions. Therefore, it will be natural for this to be done in the ISO, in spite of what Transco management claims. On the subject of investment in meters that ISO needs to make full measurement of the flows of electricity on the transmission system, he said that Mijatovic has recently purchased 400 meters from Siemens without any discussion with ISO. It is not known how he paid for these new meters, now how Transco intends to use them.
- At the request of Merritt, evaluated the economics of some small hydro projects that S & A Capital has offered to build in BiH. Using the figures supplied by the developer, this group of small (less than 5 MW each) HPPS would require a price of electricity to be two and a half times the existing market price to pay for their construction using commercial financing rates.
- Met with Merritt and Ankica to discuss the new project proposal for the follow-on to our existing project. I told him that PA Consulting recommends that another senior person be added to the project along with me because of the length of the project. PA recommends that this person be Kirby Owen, who was the number two on the original study team that developed the report and the recommendations for restructuring that have resulted in the Action Plans. Kirby knows the situation in BiH, is totally familiar with the subject and knows many of the people in the electricity industry here. Merritt agreed with this proposal and also with the proposal to have Kirby added to the existing project so the present USAID management can become familiar with him.
- Met with Omer Hadzic and Mirsad of the ISO to discuss the schedule for development of the ISO Business Plan and the review of the Market Rules and the Grid Code.

Issues.

- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- The RS Government has reduced the authority of the EP HQ over the daughter companies such that the daughter companies are not subject to control by the HQ. This is in contradiction to the organization structure that was agreed in the Action Plan, and needs to be corrected quickly, so that the agreed holding company can be legally formed.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.
- Progress has been achieved in discussions between EP RS and EP HZHB to resolve the water supply to Capljina HPP and the Popovo Field.
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Transco IM has ruled the allocation of the SCADA assets between ISO and Transco. The decision supported the recommendation that was proposed by ISO and SEETEC. However, Mijatovic, designated GD of Transco is opposed to

the decision and has convinced the RS Government to recommend that the Serb member of the BiH Presidents appeal to the Constitutional Court the provision in the Transco Formation Law that appoints the Independent Member. The RS Government has also appealed the appointment of the present IM because the appointment violated the requirements of that Law.

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – NOVEMBER 2005
PA GOVERNMENT SERVICES, INC.

Activities

With Merritt, Ankica and Amila, met with Minister Zigic, who has recently *announced his resignation* as the Minister of Energy, Mining and Industry in the FBiH Government, along with his assistant, Srdanovic. In explaining his reasons for resigning, he said that it was not only over EnergoPetrol, but that he feels that he has opened up too many issues that society is not ready to solve, and that it is time for him to go. He said that he will go to the University of Tuzla.

Merritt said that the World Bank (WB) and the international community has a problem with the FBiH's decision on Coal Mine Breza *being transferred to EP BiH*, and asked if there is a chance that the Government would change its mind. *Zigic said that the Government will not change this decision.* He said that TPP Kakanj needs the coal from this mine, so it is not one of the mines that the EP can operate without. Breza is opening up a new pit that will be used by the TPP, but recently the EP has stopped cooperating on this project. Merritt suggested that I be more involved in this project to assist in resolving the misunderstanding. Zigic said that the MoE has created a team of people from MoE, EP BiH and Breza Mine, and that I can participate in its work. He said that the EP has placed Breza under the TPP instead of under the EP, and that is not in accord with the Action Plan. [I later found out from Aganovic of EP BiH that this is not the case, and that Breza is a separate division of the EP, just as the TPPs and the HPPs are.

Merritt reported that the WB is not pleased with the meeting that Zigic had with his RS counterpart Gligoric where they stated that they did not support the BiH Energy Study being proposed by the WB. Zigic said that his discussion with Gligoric is very natural because they have been friends and colleagues for 30 years, and are very comfortable working together. He said that the reason for their position is that BiH has not had a long-term energy strategy for more than ten years, and that they don't want to wait for *another three years for the WB study to be finished to develop a strategy.* He said that commissions have been *formed in both Entities to do this*, and that he and Gligoric have agreed that the work of these commissions should be harmonized so that they work together. They believe that enough studies have been performed in the past and the data is available that is needed to formulate a BiH strategy. As an example, the gas pipeline will bypass BiH unless we develop a national gas strategy.

Merritt said that there are two major problems in developing a BiH energy strategy: (1) MOFTER should be leading this effort but they are not capable; and

(2) the RS Government is against any attempt to create a unified BiH market. In response to the first item, Zigic said that the two Entity Energy Ministers were offering their services to assist in this. It was agreed that we do have enough expertise now to create a BiH energy strategy. Merritt suggested that the Entities, under the direction of the MoEs should update their existing strategies and then present them to the BiH CoM as the agreed strategy for BiH. Zigic said as example of where they need to work together is that the RS has a problem with the refinery at Brod, and the Federation can help resolve it; and the RS needs to change its hard-line position on gas.

- Met with Emir Aganovic of EP BiH to discuss the situation on the transfer of Coal Mine Breza to EP BiH. He told me that Zigic has said that the redundancies that will be necessary at Breza will be treated like the FBiH Government does *with the veterans from the army, which means that they will be given a bonus* when they are laid off. The problem with this statement is that there is no budget in the Government to do this. The decree requiring the transfer of Breza to the EP required it to be accomplished by the end of 2005. The EP hired Deloitte to give them a plan for auditing the mine to prepare for the transfer. Deloitte's estimate is that it will take a minimum of 90 days to do this, and that there is no way that this can be done by the end of 2005. Emir confirmed that TPP Kakanj can use coal from all of the pits in Breza.

We discussed the future generating needs for BiH. His estimate is that with an annual growth rate in demand of a modest 2.5%, BiH will be in energy deficit by the year 2012. That is the year that Tuzla Unit 3 is planned to be retired. Then between 2015 and 2020, Unit 4 in Tuzla and Unit 5 in Kakanj will be retired. If there is new industrial growth, then the annual growth in demand will be greater than 2.5%.

- Met with the ISO WG who are working on the Market Rules and with the SEETEC team that has produced a draft of the Market Rules. After several meetings over three days, we have finalized the draft Market Rules and ISO has accepted them from SEETEC. *Even though they were several months late* because of the change in the SEETEC team, the new team did produce a good document that represents the market as it will exist in 2006.
- With Merritt, Ankica and Amila, met with RS Minister of Economy, Energy and Development in Banja Luka. Gligoric said that the decree forming the EP RS Holding Company will go to the Government for approval very soon. During the time that it has taken to get it to the Government, the Ministry has worked with the EP to better define the authorities of this holding company, and all of these details work in favor of strengthening the EP HQ. Merritt asked Gligoric his opinion on the request of the RS Government for the EP to increase its profit by 22 million KM for the year. He said that he is in general agreement with Dakic on this, and they are working on achieving these results by the following means:
 - increase cost savings in the companies
 - reduce losses
 - increase collections
 - become more selective in investments.

There should be opportunities in these areas to increase the revenue of the EP. Merritt was critical of this move by the Government to require this increase in profit this late in the year, and sees it as an attempt to get rid of existing EP management as well as an PR move to be seen as raising money for the pension fund in an election year. Gligoric said that of the 22 million KM, 9 million of it is to the Prenos and the EP is left with 13 million. He and Dakic agreed that it may be possible to find that much. Merritt said that if the Government would fully support the EP in collecting debts, cutting off non-payers and reducing commercial losses, he would agree, but he doubts that they will.

At this stage in the meeting Srdanovic, assistant to Minister Zigic from FBiH joined the meeting with the draft of a memorandum that the two Ministers had agreed to sign on creating harmonized Entity energy strategies. Merritt said that he does not consider that the efforts described in this memorandum violate the WB program. Gligoric signed the memorandum and Srdanovic took it back to Sarajevo for Zigic's signature.

Merritt asked the status of the Vrbas River HPP Concession. Gligoric said that the Government is waiting for the consortium to finance the project. Also, they have not completed the environmental studies or answered the environmental concerns on the Vrbas River that have been raised. On their other HPP project, Gligoric said that he hoped that we would support the continuation of a restructured Buk Bijela project.

Earlier in the day, we had received the letter that Mijatovic sent to the ISO and to SERC stating many objections to the Grid Code and to the ISO and firmly stating that he believes that BiH should have a TSO instead of the separate ISO. We asked Gligoric about this letter, but he said that he had not seen it. He said that he would read it and then speak to Mijatovic. This followed the decision of the previous week that the RS Government rejected the decisions made by the Independent Member who has the legal responsibility to act as the Transco Board, and threatened to take these decisions to the Constitutional Court.

- Attended the donors meeting to discuss the upcoming meeting on the formation of the Transco and the ISO that will include the two designated GDs, Mijatovic and Hadzic respectively. The EC stated that their view is that we must move forward as quickly as possible to form the Transco and not be deterred by the actions of the RS Government. The meeting concurred that all of the decisions of the IM should stand as stated, and the formation of the company should proceed on the fastest possible schedule.
- With Amila met with Dabovic of EP RS in Trebinje, and also part time with the two Deputy GDs Vukovic and Lesic. The big news that Dabovic reported was the forced outage of Ugljevik on November 1 because of a problem in a turbine rotor. The 138 GWh that Ugljevik was to produce in November was the extent of their surplus for export. Hydrology is poor now and will probably get worse in December, and the most optimistic schedule to return the plant to service is mid December if the rotor problem is a minor one, and they won't know how bad it is until they dismantle it. To make up for the loss in energy, they are now borrowing energy from the other two BiH EPs and are emptying the Belica accumulation to supply their domestic demand. The EP is in a deficit position for energy, which

means that at this moment, BiH is in a deficit position. Also, all of their neighboring countries are in a deficit, so that when their accumulation is gone, the next step will be to shed load. They have cancelled their exports for November and December, and plan to delay any tender for sales for 2006 until later in the year because in January and February they will have to pay back the borrowed energy and refill Belica. The supply situation was exacerbated by a 20-day outage at Gacko caused by an electrical fire in some ancient equipment. Because of these problems, they now plan to replace all of the old, original electrical equipment in Gacko at the next outage.

Vukovic and Lesic were concerned that the decree on the holding company was being held up in the Government and would not be issued before the end of the year. It is very important that the new company be formed by the end of the year so that the books can be closed out on the new organization instead of the existing one. The decree has gone from Gligoric to the PM's office and then it will have to go to the Review Board and then finally to the Government for approval. There are many places where it could be delayed or waylaid.

- ISO held a public meeting for the Grid Code Technical Committee review of the comments from the members of the Technical Committee on the draft of the Grid Code. The draft was prepared by the WG in ISO, and the Technical Committee consists of three members appointed by each EP, one each from generation, distribution and transmission. ISO ran the meeting and each member of the Technical Committee was given ten minutes to present his comments. We had two types of comments: the generation and distribution representatives gave technical comments of varying degree of usefulness and detail, as did the transmission representative from EP BiH. The transmission representative from EP HZHB gave a totally political commentary to the effect that there should be no ISO and that the regional transmission center in Herzegovina should have the responsibility to dispatch (in other words, they argued for the status quo of a vertically integrated EP – not a new argument for EP HZHB). The transmission representative from EP RS directed all of his comments towards the fact that the ISO should not exist and that Transco should operate as a TSO, and so all of the responsibilities that are given to the ISO in the Grid Code should go to the Transco. At the end of the meeting, the Chairman of the ISO WG stated that the WG would consider all of the technical comments received, would reject all of the political comments received and would produce a new draft of the Grid Code.
- Met with John Williams to discuss the follow-on projects that the EC is considering to support Transco and the ISO. He said that there were no bidders to the tender that the EC issued for either job. He said that the scope of work in the tender was so out of line with the cost that he was not surprised that no one bid. John is going to make the recommendation that they reconsider and use the budget for one project to support the Transco, and not consider the ISO. His reasoning is that SEETEC will be leaving early next year, and so Transco will be without an advisor, while PA Consulting plans to be here and will be able to continue its support for the ISO.
- Attended the donor's meeting prior to the Coordination Meeting at which the GDs of the ISO and Transco will attend to discuss the schedule for formation of the

two companies. It was reported by the IM that the RS members of the WGs have refused to work since the RS Government published its complaints against the decisions of the IM. The general consensus of the meeting was to proceed with the formation of Transco with all possible speed in spite of the actions of the RS because the IM has the authority to form the company.

- Attended the Coordination Meeting where the details of the schedules for the formation of the ISO and Transco were discussed. Mijatovic said that the detailed interface between ISO and Transco needs to have more discussion. The response was that the proper place for this discussion was in the Technical Committee that is reviewing the Grid Code. He was not satisfied with that answer. The IM reported that both EPs from the Federation have submitted the requests for transfer of their loans to the CoM, but EP RS has not. Mijatovic said that he does not know where this is now, but that all EPs have a problem in that they have not submitted their opening balance sheets. It was pointed out that these are not required for registration, and that is not an adequate reason to delay registration of Transco. Mijatovic listed several more reasons that will cause a delay in registration, but none of them have credibility. It was concluded by the majority at the meeting that none of the participants at this meeting could resolve the problems posed by the RS Government, but that there should be no change in the objective to register Transco at the earliest possible date. Mijatovic responded that the RS Government's decisions are binding on RS citizens, and he also believes that the Government's actions were taken because some of the decisions of the IM were in error and the RS believes they must be corrected. Hadzic stated that the RS members have stopped work on the SCADA Project because of the RS Government's action, and this will affect the schedule and cost of the Project. Kjartan stated that the EC strongly believes that the reform of the energy sector is important in BiH, and energy was one of the 16 issues in the Feasibility Report, and therefore the EC will continue to watch how the reform process progresses.

- With Merritt, Ankica and Amila, met with EP BiH GD Kreso. The EP has been trying to bid on several mini-hydros in the Konjic region, but has been disqualified as a bidder because they operated in a loss last year. He reported that the EP is now searching for a partner to join in bidding for these mini-hydro projects.

Kreso said that the efforts of the FBiH Government to force the EP to take over the coalmines must be discussed so that the public understands the full impact on the 5700 employees of the EP and the 14,000 employees of the coalmines. He plans to present a full discussion of this process to the public through the three parliaments.

- With Merritt, Ankica and Amila, met with Transco GD-elect Mijatovic and his assistant Radmila. Merritt said that the letter that Mijatovic had written stating that BiH should have a TSO instead of separate ISO and Transco was totally out-of-order because the laws that have been passed in BiH support the separate organizations. This is the correct decision for BiH at this time to assure independence and fairness, and everyone must accept this decision. Mijatovic said the details of the interface between ISO and

Transco should be better defined in the areas of planning, connections and metering. He said that the statements made in the draft of the Grid Code that was presented were in error, and he wants to correct them. I told him that the mechanism for doing this is the existing Technical Committee that is reviewing and commenting on this draft, but that his representative on this Committee spent all of his comments arguing that the ISO should not exist and that BiH should have a TSO. He also made said that Transco should have an unregulated right to use the telecoms for all customers, including those in the electricity sector, and that all references to telecoms should be deleted from the Grid Code. I said that this is not possible because the Transco is regulated by SERC, and that SERC will determine the revenue requirements of Transco, and that all regulated activities of Transco must be included in the Grid Code and/or the Market Rules. Mijatovic requested that USAID host a separate meeting of the ISO and Transco technical people to discuss the detailed interface items that he is in disagreement with the draft Grid Code.

- In a discussion with the ISO and the advisors to both ISO and Transco, USAID decided that a separate meeting that was proposed by Mijatovic would be counterproductive to the official operating of the Technical Committee whose job it is to resolve these issues, and declined to arrange a separate meeting.

Issues.

- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- The new Tariff Methodology that FERC is using to compute the Inter-company Tariff that EP HZHB will pay to EP BiH does not include total recovery of costs for EP BiH. This is not an adequate formula and causes EP BiH to subsidize EP HZHB.
- On November 1 Ugljevic was shut down because of a turbine problem. It is expected to be down for at least two months, and the corresponding loss of energy amounts to the total that was planned to be exported during November and December. This loss means that EP RS is now in deficit for this year and probably for next year as well, and because the FBiH is also in deficit, the entire country is liable to be in deficit for 2006. Because all of the neighboring countries are in deficit also, there could be an energy crisis next year.
- The RS Government has reduced the authority of the EP HQ over the daughter companies such that the daughter companies are not subject to control by the HQ. This is in contradiction to the organization structure that was agreed in the

Action Plan, and needs to be corrected quickly, so that the agreed holding company can be legally formed.

- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.
- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Transco IM has ruled the allocation of the SCADA assets between ISO and Transco. The decision supported the recommendation that was proposed by ISO and SEETEC. However, Mijatovic, designated GD of Transco is opposed to the decision and has convinced the RS Government to recommend that the Serb member of the BiH Presidents appeal to the Constitutional Court the provision in the Transco Formation Law that appoints the Independent Member. The RS Government has also appealed the appointment of the present IM because the appointment violated the requirements of that Law.

USAID MOBIS CONTRACT No. GS-10F-0014K
INSTITUTIONAL STRENGTHENING IN THE ELECTRICITY SECTOR
MONTHLY STATUS REPORT – DECEMBER 2005
PA GOVERNMENT SERVICES, INC.

Activities

With Amila, attended the SERC meeting to discuss the paper that SERC had published discussing the future market in BiH and how it would relate to the regional market. This paper had references to the dates that are in the treaty for having the BiH market comply with the EU requirements, but had no references to the dates that the BiH market is planning in the Market Rules. My comments at the meeting were to the effect that the SERC discussion paper and this meeting are a bit premature. This discussion should come after the upcoming Market Rules are issued by the ISO.

- Met with Peter Czech and Faruk of SEETEC and John Williams, advisor to the BiH Minister of Energy, to discuss some of the controversial issues of the Grid Code that had been discussed in the Grid Code Technical Committee Meeting. The two items that were the most controversial in that meeting were the discussion of the planning process and the regional transmission centers. We all agreed that the planning process should be initiated by the ISO in its systems analysis, and then the Transco should perform the engineering feasibility study for any changes that need to be made. These proposed changes would then be submitted to the ISO for optimization and approval, and then ISO would submit the final proposal to SERC for approval.

We also agreed that the regional centers should be called “regional operation centers” and not regional control centers. The word “control” should not be used in reference to the regional centers.

- Met with the ISO GD Omer Hadzic to discuss the tariff submittal that ISO made to SERC. He said that they had requested an average of 14% increase in salaries for ISO personnel, and increase of 20 people during 2006, debt payments for the EBRD loan plus a commercial bank loan for investments. After looking at their submittal, it was apparent that they did not submit any justification for these increases in budget for 2006. His response was that SERC must be aware that ISO is a new company and that they need this increase in budget to fulfill their responsibilities. I told him that I was not optimistic that SERC would approve his requests because they are under pressure not to increase total tariffs for 2006, and with no justification or resulting savings from other organizations in the sector, SERC would have trouble increasing the ISO budget.
- In a discussion with Mirsad Sabanovic of the ISO, learned that EFT and the EP from Slovenia are attempting to purchase reserves from EP RS (HPP Trebinje)

and EP HZHB (Capljina), respectively. This will cause a problem for the ISO because it is responsible for providing reserves for tertiary control, and according to the Grid Code, each EP is charged with supplying these reserves. Upon checking with the two EPs, they are both planning on such sales under the table and not in accordance with the relevant procurement laws. These developments will continue to be monitored so that SERC can provide compliance with the Grid Code.

- Met with Omer Hadzic to discuss the changes that are required in the management of the SCADA project because the existing project management is the old ZEKC Project Team. We have proposed that the new project organization be composed of a Supervisory Board composed of the General Directors of the three EPs, Transco and ISO (or their designates). The Project Manager should be from ISO, and project engineers would be from each of the organizations that are involved in installing the SCADA system. This new management structure has been submitted to the ISO Board by the IM, with the agreement of the Transco IM. Omer agrees that the designated Project Manager is Sabanovic..
- Attended a meeting in Kakanj called by the Kakanj Coal Mine to discuss the future of the Mine. The Mine General Director presented a plan for modernization of the mine and for reduction in the existing work force, with a regional development program to provide for jobs for the displaced miners. There were politicians and government authorities there to give support to these plans, but there were no provisions for financing this program. It was implied that the EP should finance the improvements in the mine and the government should finance the redundancies and development, but no commitments of any kind were made to accomplish these. I refused to be interviewed by the news media or to make any statement.
- With Amila, met with RS Minister of Economy, Energy and Development Gligoric to discuss the progress being made by the RS Government on passing the decree on reorganization of the EP into a holding company. It is very important that this decree be passed by the Government before the end of the year. Gligoric said that the Prime Minister has assured him that it will be passed before the end of the year. However, with the uncertainty in the status of the Government, it is still problematic. If the Parliament declares the Government in Technical Mandate, the Government will not be able to pass anything. He also reported that the Ministry would continue to work on a new RS Gas Law because, even though a BiH law is needed, an Entity law is also required.
- With Amila, attended the public meeting of the Technical Committee for the Market Rules. Most of the comments came for EP HZHB, and were of the nature of objecting to the existence of the ISO and of its role as is defined in the laws. Mirsad Sabanovic, who was chairing the meeting for the ISO, said that most of these comments were due to the non-understanding of the legal role of the ISO, and that those making these comments should read the laws. He said that all comments should be submitted in writing and those that were technical would be considered by ISO for a follow-up meeting. Those that are misunderstandings of the laws or that were political would not be considered.

- With Amila, met with Dabovic of EP RS to discuss the proposed external sales of electricity for 2006. They have more energy to sell than they thought they would because of the month's outage of Ugljevik because of increased rainfall and the addition due to Fatnicko Tunnel, which together have added 450 GWh into Lake Belica. They are selling during the last half of December and will continue in early January about 25 MW with a new tender that resulted in prices of 29.3 from HEP and 36 from Entrade, who each take part of this 25 MW. They plan a new tender for early January for the entire year of 2006. He said that EP RS did not officially respond to the tender from Slovenia to purchase reserves, but management (Vokovic) is negotiating privately with Slovenia to sell reserves. EP RS has been selling reserves (without a tender) throughout 2005 to EFT, and EFT has discussed buying reserves next year with ISO. Dabovic doesn't know the outcome of these discussions. He has not been part of any discussions or negotiations on the private sale of reserves. He is aware of the conflict of selling reserves outside BiH with the requirement of ISO to purchase reserves.
- The RS Government passed the decree on restructuring the EP into a holding company on the last week of December. This saves the EP from being broken-up into the separate daughter companies that would have been a financial disaster. However, several more decisions need to be made on how the financial relationships of the Headquarters and the daughters will be structured, and these were left to be decided in the new year.

Issues.

- Under the new decision proclaimed by the FBiH Government on inter-company delivery and tariffs, EP BiH sold its power to EP HZ HB, but EP HZ HB is just forwarding the total cost of that energy onto Aluminiji, which was not what was intended. Aluminiji is a tariff consumer and should be paying the tariff price of its tariff group. EP HZ HB refuses to comply with this, therefore it does not sell its power from the mix of all energy received at the average price.
- The new Tariff Methodology that FERC is using to compute the Inter-company Tariff that EP HZHB will pay to EP BiH does not include total recovery of costs for EP BiH. This is not an adequate formula and causes EP BiH to subsidize EP HZHB.
- TPP Ugljevik was sued by a local contractor who had bid on a tender to supply coal to the TPP. Even though no contract was ever awarded for this, the court awarded the contractor damages that exceeded the original bid.
- The RS Government has signed a Concession Contract for two HPPs on the Vrbas River, and the final Concession Contract has been reviewed and it refers to an Energy Purchase Agreement that we have not seen, and which will contain the liabilities to the EP and ultimately to the Government of 338 million KM.
- The international dispute between BiH and Croatia over the use of water from the Trebisnjica River and Lake Bileca has not been resolved.

- The RS Bankruptcy Law is geared towards allowing creditors to take over a company with outstanding debt and needs to be changed. This is critical for Ugljevik as it was for Gacko last year because there is consideration in the RS Government to letting the company go into bankruptcy.
- The RS Agency for Privatization is attempting to corporatize the EP RS daughter companies before they are restructured, and if that happens, the Government will own less than the 75% required to restructure them
- We are attempting to have the RS Government request that the RS Law on Public Enterprises be amended to reduce the supermajority from 75% to a simple majority required for changes in the structure of public companies so the restructuring of the EP cannot be blocked. The RS MoE has rejected this request.
- The Federation House of Representatives has voted to limit the amount of the electric companies that can be privatized to 49%.
- The Transco IM has ruled the allocation of the SCADA assets between ISO and Transco. The decision supported the recommendation that was proposed by ISO and SEETEC. However, Mijatovic, designated GD of Transco is opposed to the decision and has convinced the RS Government to recommend that the Serb member of the BiH Presidents appeal to the Constitutional Court the provision in the Transco Formation Law that appoints the Independent Member. The RS Government has also appealed the appointment of the present IM because the appointment violated the requirements of that Law.